



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2706  
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE  
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
JOHN NAIMO  
MARIA M. OMS

August 29, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *for*  
Acting Auditor-Controller

SUBJECT: **AUDITOR-CONTROLLER'S RESPONSE TO LA WORKS' JULY 21,  
2008 LETTER TO THE BOARD OF SUPERVISORS – WORKFORCE  
INVESTMENT ACT (WIA) CONTRACT**

This is in response to LA Works' (LA Works or Agency) July 21, 2008 letter to your Board regarding our June 30, 2008 monitoring report (LA Works' letter and Auditor-Controller's report are attached). LA Works claims a number of findings noted in our monitoring report were not supported by Workforce Investment Act (WIA) regulations, facts, the law, or accepted practices.

Our review of LA Works' claims indicated that except for not allowing LA Works to use WIA funds to pay wages for participants to attend classroom training and our misclassification that LA Works is a "private non-profit organization", all other findings and recommendations contained in our June 30, 2008 report are correct.

**Background**

The Auditor-Controller conducted a program, fiscal and administrative contract review of LA Works' WIA program which covered Fiscal Year (FY) 2006-07 and noted that LA Works maintained sufficient internal controls over its business operations. However, LA Works billed the Department of Community and Senior Services (CSS) \$13,681 in unsupported and unallowable expenditures. Prior to issuing our original monitoring report, we met with LA Works to discuss the findings and recommendations. LA Works

agreed that they billed CSS for *unsupported expenditures* and repaid CSS \$10,478. LA Works did not agree with our findings of additional *unsupported expenditures* totaling \$1,103 and *unallowable expenditures* totaling \$2,100.

### **Summary**

The attached document lists the six areas of concern that LA Works expressed in their July 2008 letter and our Department's response. LA Works overall concern related to our disallowing expenditures totaling \$2,100 for wages that LA Works paid to youth program participants to attend classroom training. LA Works paid the participants an hourly wage as an incentive for the participants to attend classroom training.

Based on the Agency's explanation, we believed that paying the program participants *incentives* rather than *wages* would be more appropriate. According to a WIA Youth Program Bulletin issued by CSS, incentives are used by the Agency to reward youth program participants for achieving specific goals. In addition, paying wages for the participants to attend training also required the Agency to use WIA funds to pay a portion of the participants' payroll taxes and workers' compensation payments reducing the amount of funding available to provide other direct program services. CSS staff also informed LA Works at our April 2008 meeting that paying wages for school-training hours was unacceptable.

In July 2008, we contacted the State and requested their opinion on using WIA funds to pay wages to youth program participants to attend classroom training. Initially, they indicated that paying wages to attend classroom training was not an appropriate use of WIA funds but that they would provide us with a written opinion. On August 1, 2008, we received the State's written opinion which contradicted their preliminary opinion. The State's written opinion noted that using WIA funds to pay wages for participants to attend classroom training was appropriate. As a result, LA Works does not have to repay CSS \$2,100 for unallowable expenditures previously identified in our original report.

The Agency is still required to repay CSS for undocumented expenditures totaling \$1,103. This amount represents the undocumented expenditures that LA Works has not repaid CSS.

### **Proposed Course of Action**

Based on the State's written opinion, we plan to revise our report to allow the Agency to use WIA funds to pay wages to program participants to attend classroom training. This will reduce the amount of unsupported and undocumented billings from \$13,681 to \$11,581 (\$13,681 - \$2,100). As previously indicated, LA Works repaid CSS \$10,478.

In addition, we will note that LA Works is a governmental agency and not a "private non-profit organization". Prior to issuing the revised report, we will ask the Agency to prepare a new response.

Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachments

c: William T Fujioka, Chief Executive Officer  
Cynthia Banks, Director, Department of Community and Senior Services  
Salvador Velasquez, Executive Director, LA Works  
Kevin Stapleton, Chairperson, LA Works  
Public Information Office  
Audit Committee

### **Review of LA Works Concerns**

The following lists the six areas of concern that LA Works noted in their letter to the Board and the Auditor-Controller's response:

1. **LA Works (is) a private non-profit organization" (A-C Report, Cover Memo page 1, paragraph 2).**
  - 1.1 LA Works Comment: LA Works is a local public (i.e., governmental) joint powers agency under the California Government Code. It is not now and never has been a "private non-profit organization."
  - 1.2 A-C Response: Classifying LA Works as a "private, non-profit organization" was an oversight on our part that did not change the monitoring results. The applicable OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments) also required LA Works to maintain adequate documentation to support the program expenditures.
2. **"LA Works billed CSS \$13,681 in unsupported and unallowable expenditures" (A-C Report, Cover Memo page 2, Results of Review, paragraph 1).**
  - 2.1 LA Works Comment: As demonstrated below, most of the Auditor-Controller's "unallowable" determination are not supported by the facts, the law, the regulations, or accepted practice.
  - 2.2 A-C Response: Two thousand one hundred dollars (\$2,100) of the \$13,681 related to expenditures that were categorized as "unallowable". We provided the Agency with the criteria that we believed support the disallowance. CSS staff also concurred with the findings. However, the final resolution of the unallowable expenditures is discussed in Item 5 below.  
  
Eleven thousand five hundred and eighty-one dollars (\$11,581) was categorized as unsupported. Prior to issuing our report, LA Works acknowledged that they billed CSS for unsupported expenditures and eventually credited (repaid) CSS \$10,478 of the \$11,581. Items 4 and 6 below discuss the criteria used to support repayment of the remaining \$1,103 (\$600 + \$503).
3. **"We emailed them specific citations of federal guidelines and documents as requested" (A-C Report, Cover Memo page 2, Review of Report, paragraph 1)**
  - 3.1 LA Works Comment: As noted below, the Auditor-Controller did not provide relevant citations to law or regulations in support of the Report's conclusions. In one instance (see Item 5 below), it only support for a "finding" of disallowance is

a claimed oral conversation with an anonymous CSS employee, which CSS denied to LA Works!

3.2 A-C Response: We disagree with LA Works comments that we did not provide them with the requested documentation. As previously mention, we provided LA Works with the following guidelines and documents to support our conclusions:

- Workforce Investment Act (WIA) 101(46) and 134 (e)(2)(A)(B) and related regulations at Title 20 Code of Federal Regulations, 663.800 and 663.805. These regulations addressed the supportive services and incentives documentation requirements.
- Copy of the Auditor-Controller Handbook requirements covering criminal record clearance.

In addition, at the April 2008 exit meeting with the Agency, we referenced additional criteria listed in the Auditor-Controller Handbook used to support our findings. A CSS representative also attended the meeting and expressed her concurrence with the findings listed in our report.

4. **“Our report did not question the services provided; rather, it showed that LA Works did not document justification for supportive services or incentives” (A-C Report, Cover Memo pages 2-3, Review of Report, 1<sup>st</sup> bullet; and Report, page 1, Billed Services/Client Verification – Results – Adult/Dislocated Worker Programs)**

4.1 LA Works Comment: In fact, the Auditor-Controller first mis-characterized these payments as “supportive services” and only on that basis questioned them due to lack of documentation in the WIA participant’s file. LA Works has repeatedly demonstrated that the payments were not “supportive services” as expressly defined in WIA law. Rather, they were incentives to encourage employed ex-participants (i.e., people who got jobs thanks to their WIA participation) to report their job details to LA Works, as a money-saving method of LA Works to obtain data on positive WIA program outcomes for the County’s benefit. There is no WIA or other regulatory requirement that such payments be documented in the participant’s Individual Employment Plan (IEP), which explains the Auditor-Controller’s failure to produce any authority for its finding.

4.2 A-C Response: We disagree with LA Works claims that we mis-characterized the payments as “supportive services”. Unlike the WIA Youth programs, the WIA Adult programs do not have separate cost category for incentives. According to the State of California Employment Development Department (EDD), incentives paid to WIA Adult program participants are allowable as adult supportive services if the payments meet the definition and conditions of supportive services as described in the Workforce Investment Act (WIA) 101(46) and 134 (e)(2)(A)(B)

and related regulations at Title 20 Code of Federal Regulations, 663.800 and 663.805.

The Agency needed to appropriately document the \$600 in incentives paid to adults as supportive services. According to EDD's Services and Training Q&A website, "The need for post-placement supportive services must be documented as part of the Individual Employment Plan (IEP) in the participant's file.

We discussed these requirements with the Agency at our April 2008 meeting and provided them copies of the correspondence we received from the State regarding this issue. CSS also concurred with the finding. The Agency needs to repay CSS \$600 or provide documentation in accordance with the WIA requirements.

**5. "CSS confirmed that the participants should not be paid wages for school-training hours" (A-C Report, Cover Memo page 3, Review of Report, 2<sup>nd</sup> and 3<sup>rd</sup> bullets; and Report page 2, Youth Program (\$585) and page 5, Payroll and Personnel, Results (\$1,515)).**

5.1 LA Works Comment: In both cases, the Auditor-Controller's only authority for its "finding" is a claimed telephone conversation with a CSS employee. There is no citation to any legal or regulatory authority, which a reasonable person would require before expecting repayment of any amount. In fact, in a "work-study" type program where work hours are predominant, more than thirty (30) years of experience with successive Federal workforce programs support payment of wages for all of a participant's hours in the program, rather than setting up a parallel "stipend" payment system with all of the attendant costs and inefficiencies.

5.2 A-C Response: During our review, LA Works informed us that they billed CSS for wages paid to youth program participants to attend training. According to LA Works, the wages were paid to the participants to encourage them to attend the training. Based on the Agency's explanation, we believed that paying the program participants incentives would be more appropriate. As noted in a WIA Youth Program Bulletin issued by CSS in July 2001, incentives are used by the Agency to reward youth program participants for achieving specific goals, such as completing a training course. Paying wages to attend individual classes does not appear to be as an effective motivator to encourage participants to complete the training. In addition, paying wages for the participants to attend training also required the Agency to use WIA funds to pay a portion of the participants' payroll taxes and workers' compensation payments reducing the amount of funding available to provide other direct program services. CSS staff also informed LA Works at our April 2008 meeting that paying wages for school-training hours was unacceptable.

On July 31, 2008, we contact the State of California Employment Development Department (EDD) for their interpretation of the WIA guidelines covering paying wages to youth program participants to attend training classes. Initially, they expressed concern about this practice. However, on August 1, 2008, the Workforce Services Division, in concert with the Program Review Branch of EDD indicated that WIA regulations allows the use of WIA funds to pay wages for the time spent in classroom activities, as long as the classroom activities are a combined element of the work-based experience for the youth, regardless of whether the Local Board has a related policy in place or not. EDD cited Sections 664.470 and 664.370 of the Workforce Investment Act (WIA) regulations to support their interpretation.

**6. “LA Works did not provide proof that the participants worked or actually received the cashed payroll checks” (A-C Report, Cover Memo page 3, 4<sup>th</sup> bullet; and Report page 5, Payroll and Personnel, Results (\$503))**

**6.1 LA Works Comment:**

- (a) There is no standard in WIA law or regulations for proof “beyond a reasonable doubt” with regard to a WIA participant’s work hours because this is not a criminal matter! The legal standard is only “reasonableness” (i.e., it is more than likely than not that the participant worked the hours indicated?). By that standard, the supervisor’s signature on the time card attesting to personal knowledge that the participant did work the indicated hours, and the lack of the participant’s signature on the time card due only to her/his unavailability on the last day of the pay period, is sufficient as a matter of law to justify issuing the paycheck to the participant.
- (b) The Auditor-Controller also notes LA Works could not prove the participant actually received the cashed payroll checks. Of course, the same is true of every WIA participant and, for that matter, of every LA Works and County employees! When paychecks are mailed by an employer to a person’s last known address, and are cashed at a U.S. financial institution via endorsement by someone signing that person’s name, the employee has no further obligation to verify the identify of the payee. And the Auditor-Controller has no legal or regulatory authority for its contrary conclusion.

**6.2 A-C Response:** The Agency submitted timecards that were not signed by the participants certifying that the hours reported were actually worked as required. LA Works indicated that the timecards were not signed because the participants can not be located.

The County contract required LA Works to comply with all regulatory requirements, including the Auditor-Controller Contract Accounting and Administration Handbook. According to the A-C Handbook, Section A, Part 3.2,

“Supporting documentation is required for various types of expenditures as follows:

**Payroll** – Time and attendance records signed by the employee and approved in writing by the supervisor, time distribution records by program accounting for total work time on a daily basis for all employees, records showing actual expenditures for Social Security and unemployment insurance, State and federal quarterly tax returns, federal W-2 forms, and federal W-4 forms... Unsupported disbursements will be disallowed on audit.”

The Agency needs to repay CSS \$503 or provide documentation in accordance with the A-C Handbook requirements.



RECEIVED  
L.A. COUNTY

2008 JUL 22 PM 4:00

AUDITOR CONTROLLER

July 21, 2008

Salvador R. Velasquez  
Chief Executive Officer

Board of Directors

Kevin Stapleton  
Chairman

Steve Herfert

Ken Herman

Winston Lee

Joe Rocha

Bill Wise

The Honorable Board of Supervisors  
Yvonne B. Burke, Gloria Molina, Zev Yarolsavsky,  
Don Knabe, and Michael D. Antonovich  
869 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012-2706

**SUBJECT: Request to Direct the Auditor-Controller to Revoke, Correct and Re-issue the June 30, 2008 Report of WIA Findings**

Dear Board of Supervisors:

On behalf of the LA Works Board of Directors, and upon the advice of counsel, we are requesting your direction to the Auditor-Controller to revoke her June 30, 2008 report to you regarding LA Works' WIA program services, correct it, and re-issue it containing only the findings which are explicitly supported by applicable law and regulations.

## BACKGROUND

LA Works is a local governmental agency, which has administered Federally-funded workforce development programs for more than 32 years. During all of that time, our record of performance and compliance with applicable rules and regulations has been exemplary. We recognize we are well short of perfection, but we consistently strive to improve those aspects of our programs where real weaknesses are discovered.

The problems we have experienced for some time with the Auditor-Controller are not of that nature. Rather, we are being repeatedly subjected to "findings" which

- assume facts which are simply wrong,
- omit details necessary for us to effectively respond,
- have no legal or regulatory basis,
- shift in focus and content depending on our response, and
- otherwise reflect a lack of understanding of relevant program and administrative standards.

When we have attempted to work cooperatively with the Auditor-Controller's staff to address these issues, we are routinely met with non-responsiveness, inflexibility and a lack of cooperation and respect. It is that experience which causes us to request your intervention.

5200

Irwindale

Avenue

Suite 210

Irwindale

CA 91706

Phone

626.960.3964

Fax

626.962.0064

www.laworks.org



## DISCUSSION

Several of the items in the Auditor-Controller's June 30, 2008 Report to you are listed below, followed by our reasons for challenging them.

1. **"LA Works [is] a private non-profit organization"** [Cover Memo p. 1, para. 2].
  - 1.1 The Error: LA Works is a local public (i.e., governmental) joint powers agency under the California Government Code. It is not now and never has been "a private non-profit organization."
  - 1.2 Why It Matters: The Federal OMB Circulars which apply to private non-profit organizations are different than those which apply to governmental agencies. This is such a fundamental issue, it is really quite surprising that the Auditor-Controller is ignorant of it. The error is also meaningful because it may account for the Auditor-Controller's apparent unawareness of the inter-governmental relationship between the County and LA Works, and of how that varies from the County's relationship with its private non-profit contractors.
2. **"LA Works billed CSS \$13,681 in unsupported and unallowable expenditures"** [Cover Memo p. 2, Results of Review, para. 1].
  - 2.1 The Error: As demonstrated below, most of the Auditor-Controller's "unallowable" determinations are not supported by the facts, the law, the regulations, or accepted practice.
  - 2.2 Why It Matters: The Auditor-Controller's erroneous conclusions are made public, harming LA Works' reputation in the community; are being used to support County action to the detriment of LA Works; and constitute a financial claim against LA Works. We have no issue with any of these effects when findings are supported by relevant requirements, but we cannot accept them when the Auditor-Controller is clearly wrong, as in so much of the subject Report.
3. **"We emailed them specific citations of federal guidelines and documents as requested"** [Cover Memo, p. 2, Review of Report, para. 1]
  - 3.1 The Error: As noted below, the Auditor-Controller did not provide relevant citations to law or regulations in support of the Report's conclusions. In one instance (*see* Item 5 below), its only support for a "finding" of disallowance is a claimed oral conversation with an anonymous CSS employee, which CSS denied to LA Works!





- 3.2 Why It Matters: It is not possible for LA Works to comply with rules developed and imposed a year or more after-the-fact, following undocumented conversations by the Auditor-Controller's staff with anonymous County bureaucrats and lacking any regulatory or contractual support. To use such rulings as operating standards or as grounds to require repayment of WIA funds to the County is patently absurd and unenforceable.
4. **"[O]ur report did not question the services provided; rather, it showed that LA Works did not document justifications for supportive services or incentives"** [Cover Memo p. 2-3, Review of Report, 1<sup>st</sup> bullet; and Report, p. 1, Billed Services/Client Verification – Results – Adult/Dislocated Worker Programs]
- 4.1 The Error: In fact, the Auditor-Controller first mis-characterized these payments as "supportive services" and only on that basis questioned them due to lack of documentation in the WIA participant's file. LA Works has repeatedly demonstrated that the payments were not "supportive services" as expressly defined in WIA law. Rather, they were incentives to encourage employed ex-participants (i.e., people who got jobs thanks to their WIA participation) to report their job details to LA Works, as a money-saving method for LA Works to obtain data on positive WIA program outcomes for the County's benefit. There is no WIA or other regulatory requirement that such payments be documented in the participant's Individual Employment Plan, which explains the Auditor-Controller's failure to produce any authority for its finding.
- 4.2 Why It Matters: The Auditor-Controller is asserting that \$600 must be repaid by LA Works to the County based only on this mis-characterization of the facts, and without any regulatory justification whatsoever. LA Works is willing to repay any WIA funds which truly are mis-spent, but demanding repayment under these conditions is unacceptable.
5. **"CSS confirmed that the participants should not be paid wages for school-training hours"** [Cover Memo p. 3, Review of Report, 2<sup>nd</sup> and 3<sup>rd</sup> bullets; and Report p. 2, Youth Program (\$585) and p. 5, Payroll and Personnel, Results (\$1,515)]
- 5.1 The Error: In both cases, the Auditor-Controller's only authority for its "finding" is a claimed telephone conversation with a CSS employee. There is no citation to any legal or regulatory authority, which a reasonable person would require before expecting repayment of any amount. In fact, in a "work-study" type program where work hours are predominant, more than thirty (30) years of experience with successive Federal workforce programs support



payment of wages for all of a participant's hours in the program, rather than setting up a parallel "stipend" payment system with all of the attendant costs and inefficiencies.

- 5.2 Why It Matters: The Auditor-Controller does not assert that WIA participants may not be compensated for time spent in classroom training; if it did, it would be wrong as a matter of law. But the Auditor-Controller does assert that \$2100 must be repaid by LA Works to the County only because LA Works called the compensation "wages" rather than "stipends." And this "finding" is based only on a claimed conversation with a CSS employee. Interestingly, there is no written documentation of any such conversation, and when LA Works staff discussed the matter with CSS, we were informed that no such conversation ever occurred. And even if it did occur, the Auditor-Controller's resort to only that -- without any support in the law or regulations -- as support for a disallowance is unacceptable.
6. **"LA Works did not provide proof that the participants worked or actually received the cashed payroll checks"** [Cover Memo p. 3, 4<sup>th</sup> bullet; and Report p. 5, Payroll and Personnel, Results (\$503)].
- 6.1 The Errors:
- (A) There is no standard in WIA law or regulations for proof "beyond a reasonable doubt" with regard to a WIA participant's work hours, because this is not a criminal matter! The legal standard is only "reasonableness" (i.e., is it more likely than not that the participant worked the hours indicated?). By that standard, the supervisor's signature on the time card attesting to personal knowledge that the participant did work the indicated hours, and the lack of the participant's signature on the time card due only to her/his unavailability on the last day of the pay period, is sufficient as a matter of law to justify issuing the paycheck to the participant.
- (B) The Auditor-Controller also notes LA Works could not prove the participant actually received the cashed payroll checks. Of course, the same is true of every WIA participant and, for that matter, of every LA Works and County employee! When paychecks are mailed by an employer to a person's last known address, and are cashed at a U.S. financial institution via endorsement by someone signing that person's name, the employer has no further obligation to verify the identity of the payee. And the Auditor-Controller has no legal or regulatory authority for its contrary conclusion.
- 6.2 Why It Matters: The Auditor-Controller once again fails to cite any authority – WIA law or regulations, OMB Circulars, State regulations, Generally Accepted Accounting Principles, anything – for its "proof" requirements. This "finding"





exposes an auditor who is clearly out of touch with any governing rules, and merely imposing personal preferences. This approach to auditing is unacceptable, and is certainly not a sufficient basis to require repayment of any amounts by LA Works to the County.

## CONCLUSION

As demonstrated above, the Auditor-Controller's June 30, 2008 purported "findings" with regard to WIA programs operated by LA Works are fundamentally flawed and largely without any legal or regulatory basis. It is distressing that this remains the case even after our repeated attempts to resolve these matters directly with the Auditor-Controller's staff, including providing reasoned analysis and requests for legal authority, which their own statements demonstrate they did not provide despite their claim to the contrary.

For these reasons, we are requesting that you direct the Auditor-Controller to revoke the referenced report, correct it based on applicable legal authority, and re-issue it only with explicit and adequate supporting citations for each finding.

Thank you for your attention to this matter. If you have any questions, please contact me at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Salvador R. Velasquez', written over the word 'Sincerely,'.

Salvador R. Velasquez  
Chief Executive Officer

c: LA Works Board of Directors  
William T. Fujioka, Chief Executive Officer  
Wendy L. Watanabe, Acting Auditor-Controller  
Cynthia Banks, Community and Senior Services Director  
Josie Marquez, Employment and Training Director, CSS  
Willard V. Jones, Esq.





**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2706  
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE  
ACTING AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
JOHN NAIMO  
MARIA M. OMS

June 30, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yarolsavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe *Wendy Watanabe*  
Acting Auditor-Controller

SUBJECT: **H.S. CONSORTIUM OF THE EAST SAN GABRIEL VALLEY  
CONTRACT (dba) LA WORKS - A COMMUNITY AND SENIOR  
SERVICES WORKFORCE INVESTMENT ACT PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of H.S. Consortium of the East San Gabriel Valley (dba) LA WORKS (LA WORKS or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) program provider.

**Background**

CSS contracts with LA WORKS, a private non-profit organization to provide and operate the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs. The WIA Adult and Dislocated Worker Programs assist individuals obtain employment, retain their jobs and increase their earnings. The WIA Rapid Response Program provides assistance to companies that are facing a reduction in their work force and soon to be dislocated workers cope with career transitions by providing orientation seminars, workshops and materials. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years old. LA WORKS' offices are located in the First, Fourth and Fifth Districts.

LA WORKS was compensated on a cost reimbursement basis and had a contract for \$4,245,574 for Fiscal Year (FY) 2006-07.

*"To Enrich Lives Through Effective and Caring Service"*

### **Purpose/Methodology**

The purpose of the review was to determine whether LA WORKS complied with its contract terms and appropriately accounted for and spent WIA funds in providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

### **Results of Review**

Generally, LA WORKS maintained sufficient internal controls over its business operations. However, LA WORKS billed CSS \$13,681 in unsupported and unallowable expenditures. Subsequent to our review, LA WORKS credited CSS \$10,478.

LA WORKS also did not always comply with other WIA and County contract requirements. For example, LA WORKS:

- Did not report the participants' program activities on the Job Training Automation System for 15 (75%) of the 20 WIA Adult and Dislocated Worker participants sampled.
- Did not document in the participants' Individual Employment Plan for \$600 in supportive services provided to ten (50%) of the 20 participants after they left the WIA program, as required by the WIA and federal guidelines.
- Did not conduct a criminal record clearance for three (60%) of the five employees assigned to the WIA programs.

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with LA WORKS and CSS on April 30, 2008. In their attached response, LA WORKS indicates that they requested copies of WIA regulations to support our findings and did not receive them. According to our records, we emailed them specific citations of federal guidelines and documents as requested. In addition, LA WORKS indicates that they corrected many of the findings. However, we found that LA WORKS did not provide the documentation supporting their corrective action. LA WORKS indicated the following:

- **The \$600 issued to the ten participants was not in the form of supportive services but incentives.** The finding in our report did not question the services provided; rather, it showed that LA WORKS did not document justifications for



supportive services or incentives in the participants' Individual Employment Plan as required.

- **The Agency was not provided with WIA regulations or authority that disallowed the practice of paying wages to participants for school/training hours.** On April 30, 2008, at the exit meeting CSS confirmed that the participants should not be paid wages for school/training hours.
- **The Agency was not provided with WIA regulations or authority that disallowed the practice of paying wages to participants for school/training hours.** On April 30, 2008, prior to the issuance of LA WORKS' response, we informed the Agency that CSS confirmed that the WIA guidelines do not allow participants to be paid wages for school/training hours.
- **An Agency should not repay the CSS for payroll costs associated with incomplete timecards for participants that cannot be located.** LA WORKS did not provide proof that the participants worked or actually received the cashed payroll checks.
- **The Agency did not find where it is required to have a criminal record clearance on all employees work with participants.** We provided the Agency with a copy of the County's policy for criminal records clearances on April 30, 2008.

We notified CSS of the results of our review. We thank LA WORKS for their assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

- c: William T Fujioka, Chief Executive Officer  
Cynthia Banks, Director, Department of Community and Senior Services  
Salvador Velasquez, Executive Director, LA WORKS  
Kevin Stapleton, Chairperson, LA WORKS  
Public Information Office  
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM  
H.S. CONSORTIUM OF THE EAST SAN GABRIEL VALLEY (dba) LA WORKS  
FISCAL YEAR 2006-07**

**ELIGIBILITY**

**Objective**

Determine whether H.S. Consortium of the East San Gabriel Valley (dba) LA WORKS (LA WORKS or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

**Verification**

We reviewed the case files for 30 (7%) participants (ten adults, ten dislocated workers and ten youths) of the 449 participants that received services from July 2006 through April 2007 for documentation to confirm their eligibility for WIA services.

**Results**

All 30 participants met the eligibility requirements for the WIA programs.

**Recommendation**

There are no recommendations for this section.

**BILLED SERVICES/CLIENT VERIFICATION**

**Objective**

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

**Verification**

We reviewed the documentation contained in the case files for 30 (7%) participants that received services during July 2006 through April 2007. We also interviewed 13 participants/guardians.

**Results**

**Adult and Dislocated Worker Programs**

The eight participants interviewed stated that the services they received met their expectations. However, LA WORKS did not document in the participants' Individual

Employment Plan (IEP) the \$600 in supportive services paid to ten (50%) of the 20 participants sampled after the participant left the WIA program as required by the WIA and federal guidelines. In addition, LA WORKS did not report the participants' program activities on the Job Training Automation (JTA) system as required for 15 (75%) of the 20 participants sampled. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities. Similar findings were also noted during the prior year's monitoring review.

### Youth Program

The five participants/guardians interviewed stated that the services the participants received met their expectations. However, LA WORKS inappropriately billed Community and Senior Services (CSS) school/training hours as participants' wages for five (50%) of the ten participants. The amount inappropriately billed totaled \$585.

### Recommendations

#### **LA WORKS management:**

1. Repay CSS \$1,185 (\$600 + \$585).
2. Ensure that staff documents the need for post-placement supportive services as required.
3. Ensure that staff updates the Job Training Automation system to reflect the participants' program activities.
4. Discontinue paying wages to participants for attending school/training.

### CASH/REVENUE

#### Objective

Determine whether cash receipts and revenue are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

#### Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed LA WORKS' March 2007 bank reconciliation and petty cash records for April 2007.

**Results**

LA WORKS' revenues were properly recorded and deposited in a timely manner. However, LA WORKS did not obtain two signatures on all checks as required by the County contract. In addition, LA WORKS' petty cash policy indicated that their petty cash fund had a limit of \$1,000. However, the County contract limits petty cash funds to \$500. To establish a petty cash fund greater than \$500, the contractor must obtain written approval from CSS. LA WORKS did not obtain written approval from CSS to increase their petty cash fund. A similar finding was noted during the prior year's monitoring review.

**Recommendations****LA WORKS management:**

5. Ensure that two signatures are obtained on all checks.
6. Ensure that the Agency's petty cash policy is in compliance with County contract requirements.

**EXPENDITURES/PROCUREMENT****Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 83 non-payroll expenditure transactions billed by the Agency for January and February 2007, totaling \$228,386.

**Results**

Generally, LA WORKS' expenditures were allowable, properly documented and accurately billed. However, LA WORKS billed CSS \$10,478 in unsupported program expenditures. Specifically, LA WORKS did not maintain appropriate documentation, such as invoices and cancelled checks, to support the program expenditures.

Subsequent to our review, LA WORKS credited CSS \$10,478.

**Recommendations**

7. LA WORKS' management ensure that only actual expenditures incurred are billed to CSS.

**ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE****Objective**

Determine whether the Agency maintained sufficient controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

**Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

**Results**

LA WORKS maintained sufficient internal controls over its business operations and complied with other program and administrative requirements.

**Recommendation**

There are no recommendations for this section.

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether LA WORKS' fixed assets and equipment purchases made with WIA funds are used for the WIA program and are safeguarded.

**Verification**

We interviewed Agency personnel and reviewed the Agency's equipment and inventory listing. In addition, we performed an inventory and reviewed the usage of 20 items purchased with WIA funds, totaling \$24,847.

**Results**

LA WORKS used the items purchased with WIA funding for the WIA program. In addition, the items were appropriately safeguarded. However, LA WORKS' equipment and inventory listing did not have the required information, such as serial number, County identification tag number and percentage of federal participation in the cost of property, as required by federal regulations. A similar finding was also noted during the prior year's monitoring review.

Subsequent to our review, LA WORKS provided an updated equipment and inventory listing that included all the required information.

**Recommendation**

8. LA WORKS management ensure that the inventory listing includes all required information.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures were appropriately charged to the WIA programs. In addition, determine whether personnel files are maintained as required.

**Verification**

We traced the payroll expenditures invoiced for 39 employees and 22 program participants totaling \$236,813 and \$15,484, respectively, for February 2007 to the Agency's payroll records and time reports. We also interviewed one staff and reviewed the personnel files for five staff assigned to the WIA programs.

**Results**

LA WORKS billed CSS \$2,018 in unsupported and unallowable payroll expenditures. Specifically, LA WORKS:

- Inappropriately billed CSS for school/training hours as participants' wages for 18 (82%) of the 22 participants sampled totaling \$1,515.
- Did not maintain completed timecards for four (18%) of the 22 participants sampled to support the participants' wages, totaling \$503. LA WORKS management indicated that timecards were not signed by the participants because the participants could not be located.

In addition, LA WORKS did not conduct a criminal record clearance for three (60%) of the five employees assigned to the WIA programs. Subsequent to our review, LA WORKS obtained a criminal record clearance for two of the three employees.

**Recommendations**

**Refer to recommendations 4 and 7.**

**LA WORKS management:**

9. Repay CSS \$2,018.

- 10. Conduct a criminal record clearance on all employees assigned to the WIA program.**

**COST ALLOCATION PLAN**

**Objective**

Determine whether the Agency's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

**Verification**

We reviewed LA WORKS' Cost Allocation Plan and a sample of expenditures incurred by the Agency in January and February 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

**Results**

LA WORKS' Cost Allocation Plan was prepared in compliance with the County contract and costs were appropriately allocated.

**Recommendation**

**There are no recommendations for this section.**

**CLOSE-OUT REVIEW**

**Objective**

Determine whether the Agency's FY 2005-06 final close-out invoices reconciled to the Agency's financial accounting records.

**Verification**

We traced LA WORKS' FY 2005-06 general ledgers to the Agency's final close-out invoices for FY 2005-06. We also reviewed a sample of expenditures incurred in April, May and June 2006.

**Results**

LA WORKS' FY 2005-06 general ledgers reconciled to the Agency's FY 2005-06 final close-out invoices.

**Recommendation**

There are no recommendations for this section.

**PRIOR YEAR FOLLOW-UP**

**Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

**Verification**

We verified whether the outstanding recommendations from Fiscal Year 2005-06 monitoring review were implemented. The report was issued on June 14, 2007.

**Results**

The prior year's monitoring report contained 14 recommendations. LA WORKS implemented ten recommendations. As previously indicated, the findings related to recommendations 2, 3, 6, and 8 were also noted during our prior monitoring review. LA WORKS management indicated that the Agency plans to implement the outstanding recommendations by June 30, 2008.

**Recommendation**

11. LA WORKS management implement the outstanding recommendations from the prior year's monitoring report.





Salvador R. Velasquez  
Chief Executive Officer

May 20, 2008

Ms. Wendy L. Watanabe, Acting, Auditor-Controller  
Department of Auditor-Controller  
Countywide Contract Monitoring Division  
1000 S. Fremont Avenue, Unit #51  
Alhambra, CA 91803  
Attention: Yoon Bae

**RE: 2006-07 WIA Program Monitoring Review**

Dear Ms. Watanabe:

Enclosed please find LA Works' responses to the 2006-07 WIA Program Monitoring conducted by your office.

However, we would like say how extremely frustrating this process has been. Your staff monitored our program May 15-22, 2007. At that time we spent hours of staff time providing supporting documentation to all of your staff's requests. On April 15, 2008 (almost one year later) we received the draft report with an exit conference date of April 30, 2008. At that meeting we requested specific citations of law and documentation as to their claim that certain costs were not allowable or why the documentation we provided was unacceptable. As you can see from our responses, those requests have gone unanswered. Many of the findings were corrected almost a year ago but are not reflected as corrected on the report.

We take great pride in the programs and services we offer to our customers and the creativity and innovation we infuse in our programs. We take our jobs and service to the public very seriously and are very well versed on WIA laws and regulations. That is why when we consider implementing an innovative or creative program we review WIA regulations, and/or discuss our ideas with WIA consultants or our attorney, prior to implementation.

**Billed Services/Client Verification**

Finding: Did not document in the participant's IEP \$600 in supportive services paid to ten (50%) of the 20 participants as required by the WIA and federal guidelines. In addition, did not report the participants' program

5200  
Irwindale  
Avenue  
Suite 210  
Irwindale  
CA 91706  
Phone  
626 960 3904

Fax  
626 962 0044

[www.laworks.org](http://www.laworks.org)



activities on the JTA System as required for 15 (75%) of the 20 participants sampled.

Response: The \$600 issued to the ten customers was not in the form of Supportive Services. LA works implemented an employment incentive program, which provided gift cards to our customers who met certain WIA performance benchmarks. We stated continuously and have provided our attorney's legal response that the gift cards issued are an allowable program expense, and are not considered supportive services (see attached letter). Each of the ten files reviewed all have documentation that tracks the criteria used to award the gift card, which includes the amount of the gift card, when and who issued the gift card, and the customer has signed acknowledgement of receiving the gift card.

Since CSS Staff has failed to provide us with a response or guidance on this issue, we have decided it is not worth LA Works staff time to continue this program. The program was discontinued July 1, 2007.

In regards to documenting Activity Code 32 (Development of Individual Employment Plan) on the MIS/JTA System, as we have discussed, in all other previous years monitors reviewed our client files and Activity Code 32 was not recorded, and it was not an issue. It was not until this monitoring visit that we were requested to document Activity Code 32. This finding has been corrected as of May 2007.

Finding (Youth Program): LA Works inappropriately billed CSS school/training hours as participant wages for five (50%) of the ten participants.

Response: During our exit interview we contested this finding and asked for the WIA regulation or authority upon which the finding was based. **As of this date, we have not been provided the citing where this is an unallowable cost.**

#### **Cash/Revenue Findings**

Finding: Did not obtain two signatures on all checks as required by the County contract. In addition, LA Works' petty cash policy indicated that a petty cash fund up to \$1,000 be maintained. However, the County contract limits a petty cash fund to \$500 and that the contractor must obtain written approval from CSS to establish a petty cash fund greater than \$500. LA Works did not obtain written approval from CSS to increase their petty cash fund.



We sent a request to Carol Domingo over a year ago requesting an increase to our petty cash. After several follow-ups we just recently received a response denying our request.

Response: Our policy was changed to require two signatures on all petty cash checks. However, after a subsequent review of our client needs, we have discontinued our WIA petty cash checking account.

#### **Expenditures/Procurement**

Finding: LA Works billed CSS \$10,478 in unsupported program expenditures. Specifically, LA Works did not maintain appropriate documentation, such as invoices and cancelled checks to support the program expenditures.

Response: This issue was corrected on May 21, 2007 by our Fiscal Officer, Richard Jewik..

#### **Fixed Assets and Equipment**

Finding: LA Works' equipment and inventory listing did not have the required information, such as serial number, county tag ID number and percentage of federal participation in the cost of property, as required by federal regulations.

Response: Staff from the Auditor-Controller's Office visited LA Works on December 14, 2007 and we were unaware that there were any issues. However, we provided an updated equipment and inventory listing that included all the required information.

#### **Payroll and Personnel**

Finding: LA Works billed CSS \$2,018 in unsupported and unallowable payroll expenditures. Specifically, LA Works: Inappropriately billed CSS school/training hours as participants' wages for 18 (82%) of the 22 participants sampled. The amount inappropriately billed totaled \$1,785. As previously indicated, \$270 of the \$1,785 was already disallowed under the billed services test work.

Response: As previously addressed under Billed Services/Client Verification, we disagree with this finding and are again requesting specific WIA regulations where it indicates this is an unallowable cost.



**Finding:** LA Works did not maintain completed timecards for four (18%) of the 22 participants sampled to support the participants' wages, totaling \$503. LA WORKS management indicated that timecards were not signed by the participants because the participants could not be located or incarcerated. However, the paychecks were cashed even for those participants that could not be located".

**Response:** Upon further review of the California labor law, an employer cannot withhold the paycheck of an individual who failed to submit a timecard, or for failure to submit a signed timecard. By law, an employer cannot penalize a current employee or terminating employee for failure to submit a timecard. The Auditor Controller is requesting repayment of payroll funds because timecards were not signed by participants. Our research indicates not only is it illegal to withhold their pay for the lack of a signed timecard, but it is unreasonable to expect an employee to return to LA Works for a paycheck (such as those incarcerated) and a Certified Mail envelope is sufficient for delivery of a paycheck.

**Policy change:** LA Works will issue a payroll check for any employee who is owed wages, regardless of whether the employee has submitted a signed timecard. LA Works will hold the payroll check until the individual contacts LA Works to physically pick up the paycheck. The only exception to picking up a paycheck in person would be an employee who quits can request payment by mail and provide a mailing address. Unless the employee specifically requests payment by mail, LA Works will hold the employee's final paycheck. If the paycheck is not claimed within 60 days, the check will be re-deposited in the LA Work's account. Documentation will be placed in the employee file indicating last paycheck was not claimed. If in the future the previous employee was to claim payment, LA Works would re-issue the paycheck based upon the last verified employment hours worked.

**Finding:** Did not conduct a criminal record clearance for three (60%) of the five employees assigned to the WIA Program.

**Response:** We reviewed our 2006-07 Subgrant Agreement with the County of Los Angeles and did not find the citing where it is required to have a criminal record clearance on all employees working with participants. However, to resolve this finding, we have completed criminal record clearance reports on two of the three employees which are attached. When the third employee returns from vacation, we will submit her request.



As a matter of policy, we submit background checks on all WIA Youth Staff. We are now in the process of submitting criminal record clearances on other employees assigned to the WIA Program.

If you have any questions, please contact Shelly Laddusaw at (626) 960-3964, ext. 2246.

Sincerely,

A handwritten signature in black ink, appearing to read "Salvador R. Velasquez", written in a cursive style.

Salvador R. Velasquez  
Chief Executive Officer

cc: Kevin Stapleton

Attachments

THE LAW OFFICE OF  
WILLARD V. JONES  
LICENSED IN COLORADO AND CALIFORNIA

12650 WEST 64TH AVENUE, SUITE #E-507, ARVADA, COLORADO 80004  
PHONE: 303.619.5936 FAX: 877.619.5936  
EMAIL: willardvjoneslaw@msn.com

March 23, 2007

Mr. Salvador R. Velasquez, CEO  
LA Works  
9200 Irwindale Avenue  
Irwindale, CA 91706

Re: Opinion on the Allowability of the LA Works  
"Customer Employment Incentive Program"

Dear Mr. Velasquez:

You have requested our opinion regarding the allowability under the Workforce Investment Act ("WIA") of paying incentives to former WIA participants to obtain from them verification of their continued employment and wages. In our opinion, the Customer Employment Incentive Program is permissible and WIA funds paid to former participants under the Program are not subject to disallowance, as further explained below.

How the Incentive Program Works

As we understand it, the LA Works "Customer Employment Incentive Program" was developed years ago to accomplish several positive results:

- (1) reward participants for verifying to LA Works that they have obtained and remained in a job after WIA participation,
- (2) expedite the WIA-required follow-up process which LA Works performs,
- (3) improve the accuracy of data on participant outcomes which LA Works must collect, and
- (4) help LA Works exceed its WIA performance standards.

Under the Incentive Program, we understand that LA Works gives four vouchers to each Adult or Dislocated Worker participant who obtains a job after receiving WIA-funded services

MR. SALVADOR R. VELASQUEZ  
MARCH 23, 2007  
PAGE 2

THE LAW OFFICE OF  
WILLARD V. JONES

from LA Works. Each voucher may be redeemed for a \$50 gift certificate when the former participant submits a current paycheck stub which verifies her/his continued employment and pay rate.

The vouchers are redeemable only at intervals (generally, quarterly) which coincide with the times when LA Works is required by WIA to collect follow-up data. If a voucher is not redeemed by the participant within the specified time period and with the required employment and earnings verification, it cannot be redeemed at all. These requirements are described in detailed written procedures which govern the Incentive Program's implementation, and those written procedures are provided to program reviewers from County, State and Federal WIA funding sources upon request.

Why Incentive Payments are Allowed by WIA

The incentive payments made by LA Works under its Incentive Program are allowable costs under WIA for several reasons:

1. Follow-up services to former participants placed into unsubsidized employment are one category of required "core services" [see WIA Sec. 134(d)(2)(K)]. In other words, the foundational legal principle is that WIA funds may be spent to serve participants after they have terminated their participation in WIA programs.
2. The incentives in question are paid in connection with LA Works performing its WIA-required follow-up duties, including verifying job retention and earnings of former participants for the required period of twelve (12) months after placement into unsubsidized employment [see WIA Sec. 136(d)(2)(D)]. It is inarguable that WIA allows LA Works to expend WIA funds to perform these WIA-required activities.
3. It is reasonable for LA Works to expedite its WIA-required follow-up by obtaining employment and earnings verification directly from the employed ex-participant in return for an incentive payment. Our judgment that this is reasonable is

MR. SALVADOR R. VELASQUEZ  
MARCH 23, 2007  
PAGE 3

THE LAW OFFICE OF  
WILLARD V. JONES

based on the experience of LA Works that this method of follow-up is more cost-efficient than compensating WIA staff to make repeated attempts to contact former participants (who often cannot be found because they are no longer in the same location) and/or the employers of those former participants (who often decline to provide the required information to LA Works).

4. The amount of each incentive payment must be reasonable under the circumstances. Making this judgment is within the authority and expertise of LA Works management, based on your experience working with participants and your knowledge of the amount of incentive payment required to ensure their cooperation. We envision no circumstance in which an outside reviewer would have the knowledge and experience working with LA Works participants sufficient to allow the reviewer to second-guess your decision that the reasonable and necessary amount for each voucher is Fifty Dollars (\$50).
5. Neither WIA law nor regulations prohibit payment of such incentives, and if any reviewer concludes that such a prohibition exists, the reviewer should be requested to cite the legal authority which supports that conclusion.

In summary, LA Works is (a) required to offer WIA-funded services to former WIA participants for 12 months after they are placed into unsubsidized employment, (b) required to follow up on the employment status and earnings of former WIA participants, and (c) permitted to spend WIA funds to do so. Also, neither WIA law nor regulations prohibit paying reasonable incentives to former WIA participants to directly provide required follow-up information to LA Works, and this method of follow-up is more cost-efficient than other allowable (and more staff-intensive) methods.

For all these reasons, it is our opinion that the LA Works "Customer Employment Incentive Program" and payments made to former WIA participants thereunder are authorized by WIA.

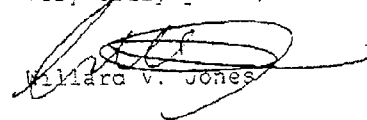


MR. SALVADOR R. VELASQUEZ  
MARCH 23, 2007  
PAGE 4

THE LAW OFFICE OF  
WILLARD V. JONES

If you have any questions in this regard, please contact me.

Very truly yours,

  
Willard V. Jones